

SUN OIL COMPANY 1967 ANNUAL REPORT

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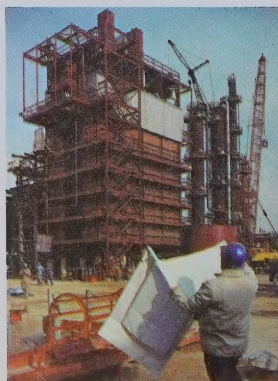


AT TOLEDO:

Sun Builds for Tomorrow

Financial and Operating Highlights

Financial	1967	1966
Revenues	\$1,173,250,000	\$1,071,341,000
Net Income	\$ 108,576,000	\$ 100,574,000
Per Share	\$4.32	\$4.00
Dividends		
Cash	\$ 23,851,000	\$ 19,646,000
Stock	5%	6%
Stock Split	—	4 for 3
Operating (in barrels)		
Net Crude Production	82,815,000	79,699,000
Crude Oil Refined		
By Sun's Refineries	97,846,000	100,453,000
For Sun's Account	7,529,000	6,635,000
Refined Product Sales	118,933,000	116,787,000



ON THE COVER: This huge furnace is a part of the \$50,000,000 expansion program now nearing completion at Sun's Toledo refinery. Known as a steam methane reformer, it will heat light petroleum gases in the presence of steam and a catalyst to free hydrogen. When in operation, it will produce up to 42,000,000 cubic feet of hydrogen daily as needed in the operation of the new hydrocracker. The towers rising at right will recover carbon dioxide as a by-product. When new facilities are completed, the refinery will be able to convert 80 per cent of input into gasoline.

Sun Oil in 1967

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IN WRITING YOU A YEAR AGO to submit our Annual Report for 1966, we expressed the belief that 1967 would bring increased challenge. It seemed apparent then that inflationary pressures in the economy would grow, forcing costs up and putting a greater pinch on profits. We sought to make clear our concern over these trends in relation to the need for high levels of private investment which would promote economic growth and reduce unemployment.

As we anticipated, inflation continued at an increased rate. Your Company had improved its return on investment in each of the five preceding years. But in 1967, our return on average investment dropped to 11.1 per cent from 11.3 per cent in 1966. We are gratified that the total of our earnings rose to \$108,600,000 on revenues of \$1,173,000,000, yet we are at the same time determined to devote our efforts to improving the profitability of the Company in order that our return may be in better relation to the results achieved by other industries generally and in better proportion to the risks inherent in our business.

From the standpoint of the physical operations of the Company, the year 1967 was quite satisfactory, paced by a gain of more than 11 per cent in our production of crude oil and condensate in the United States and Canada. Careful readers of this Report will notice that runs to refinery stills were down somewhat from 1966 and should be aware that the decline was accompanied by reduced output of lower-value products. Our refinery output of higher-value products set new records. Similarly, while our gasoline sales volume held essentially unchanged at the 1966 level, sales of lower-octane grades which bring a lower return to the Company were down and sales of higher-octane grades were up.

The major refinery construction project at Toledo, Ohio, was pressed forward during the year, with completion expected around the middle of 1968. Construction of an additional catalytic reforming plant and ancillary facilities at Marcus Hook, Pa., was completed in January, 1968. The capacity of the principal products pipeline of Sun Pipe Line Company, interconnecting the Marcus Hook and Toledo refineries, was expanded. Scheduled for completion by mid-year are facilities for producing oil from the Sassan Field in the Persian Gulf, which is being developed by a group including Iranian Sun. Development drilling continued in the promising Hewett gas field in the British North Sea where North Sea Sun Oil Company Limited is participating with the Arpet group of companies.

A detailed review of operations throughout the Company and of the many expansion and modernization projects under way during the year is presented on succeeding pages of this Report. It was in many respects a year of preparedness for accelerating growth.

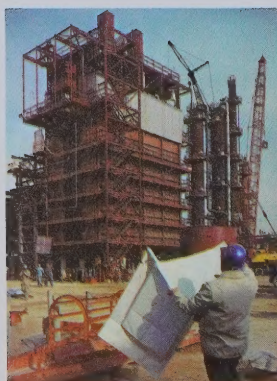
At the end of September, official opening ceremonies for the Athabasca tar sands project of our subsidiary, Great Canadian Oil Sands Limited, were held following mechanical completion of the plant by the contractor. We regret to report that failures of boiler and other power plant equipment seriously delayed operation of the project at full capacity, adding substantially to pre-production expense and denying the Company revenues that had been anticipated. A special report on GCOS appears on page 4.

Capital and exploratory expenditures by our Company have substantially exceeded half a billion dollars in the past two years alone. For several reasons we will sharply reduce investment in 1968. It is desirable, first of all, that the new facilities we have recently acquired be brought into efficient operation as contributors to earnings, and this will receive

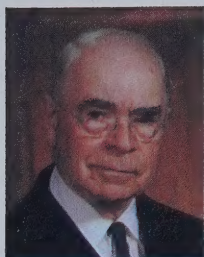
To the Stockholders and Employees of Sun Oil Company

Financial and Operating Highlights

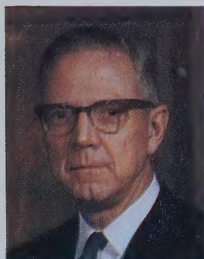
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J. Howard Pew,
Board Chairman



Robert G. Dunlop,
President

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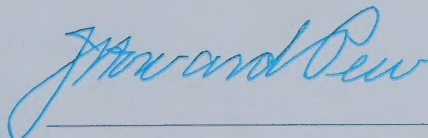
our attention. Secondly, mandatory controls on foreign investment will necessitate curtailment not only through restraints on exports of funds but through the required partial repatriation of funds. Finally, your management believes it will be advisable to withhold the commitment of funds for new major projects while the proposed merger of your Company and Sunray DX Oil Company is pending. Investment decisions made in the absence of a detailed study to determine the most effective employment of capital, having in mind the combined operations of the two companies, could prove to have been unwise in light of later developments. Until the completion of the merger is assured, we believe the interest of your Company will be served by deferring certain decisions until more information is available.

We look upon the proposed merger with Sunray DX as a significant opportunity to increase the competitive capability of your Company in serving the public, and thus to widen horizons for employees and stockholders alike. The companies complement one another in facilities and operating territories in a way that affords high hopes for the whole to surpass the sum of the separate parts.

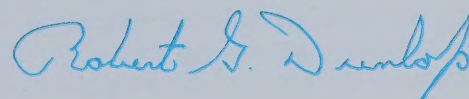
In regard to the general economic outlook, we feel there is substantial cause for concern over the foreign investment controls which have been imposed in an effort to strengthen the dollar. It will be against the interest of the country to continue such controls over a long period, for they will be increasingly self-defeating. The problem of the dollar, moreover, is not that our foreign trade is out of balance in the wrong direction, but that sharply rising expenditures have thrown our Federal budget far out of balance. As a nation, our spending has been uncontrolled in relation to our income, with the inevitable result that the promises represented by our money are no longer accepted unquestioningly. A comprehensive reappraisal looking toward reduced spending is long overdue.

The worsening national financial situation clouds the economic outlook and in the absence of prompt remedies will bring added problems and challenges to business and industry this year. For your Company, the picture is otherwise quite favorable. By being prudent in its own financial affairs, the Company has been enabled to strengthen its physical resources, while at the same time placing a major emphasis on the development of its human resources. We can be confident of our ability to surmount obstacles and to grow in service to the consuming public, and thus to enhance our individual opportunities. For the progress achieved on the broad fronts of the Company's operations in a most active year, we express our gratitude to customers, employees, dealers and distributors, and our appreciation to our stockholders for their continuing support.

The Athabasca tar sands extraction and processing facilities of Great Canadian Oil Sands Limited in northern Alberta were completed on schedule in 1967. In full operation, the vast project will produce 45,000 barrels daily of synthetic crude oil from the sands.



CHAIRMAN, BOARD OF DIRECTORS



PRESIDENT

February 15, 1968

SPECIAL REPORT

Tar Sands Plant Completed On Schedule, Opening Held

CONSTRUCTION OF Great Canadian Oil Sands Limited's Athabasca tar sands facility was completed on schedule during 1967, with all units operational prior to the September 30 deadline.

The pioneering project was officially opened by Alberta Premier E. C. Manning on September 30 at a formal ceremony held at the plant site. More than 600 guests, including government, business and community leaders from across Canada, attending the ceremonies heard Mr. Manning label the history-making opening "the most significant event in Canada's Centennial."

The plant site ceremony was part of a three-day observance running from September 29 to October 1.

Initial operation of the project's mining, extraction and processing facilities has demonstrated their capability of producing at designed capacity. However, unexpected difficulties resulting from deficiencies in the design and performance of power plant boilers and turbines prevented bringing the project into full-scale operation during the fall of 1967 and early 1968. Equipment suppliers have worked closely with Great Canadian personnel in correcting these problems. At this writing, it is anticipated that the power plant will soon be capable of operating at full capacity.

Despite these difficulties, large-scale operations for short periods have demonstrated the ability of all extraction and processing units to perform efficiently on a commercial basis. The quality of product output is fully satisfactory.

To achieve plant fuel economies, the company in late 1967 negotiated a long-term natural gas purchase contract and arranged for construction of a 168-mile pipeline to bring in gas from the Lac La Biche area.

In full operation, Great Canadian, a Sun Oil Limited subsidiary, will produce 45,000 barrels of synthetic crude oil daily.



FINANCIAL REVIEW

Profits and Revenues Advanced to New Highs

SUN OIL COMPANY BOOSTED PROFITS by 8 per cent in 1967 to a record \$108,576,000, or \$4.32 per share on each of the 25,118,051 full shares of stock outstanding at year-end. In comparison, the Company's 1966 profits of \$100,574,000 amounted to \$4.00 on each of the same number of shares.

The 1967 profits were derived from revenues of \$1,173,250,000, up by 9.5 per cent from the 1966 figure of \$1,071,341,000. Higher income from sales and other operations accounted for the increase.

The Company's profit margin on each dollar of revenue dipped slightly to 9.3 cents from 9.4 cents in 1966.

Rising sales of higher-value products, increased crude oil production and improved prices for gasoline were key factors contributing to the Company's higher profits. The earnings of subsidiary companies as a group fell below the 1966 level, although several individual companies recorded substantial gains. These included Avisun Corporation and Sun Shipbuilding & Dry Dock Company, which delivered four vessels. Sun Oil Company Limited and Venezuelan Sun Oil reported lower earnings for 1967.

Total costs and expenses rose by 9.7 per cent to \$1,064,674,000 as increased inflationary pressures and rising taxes, principally income taxes, offset gains in operating efficiency. (This figure does not include start-up expenses for Great Canadian's Athabasca tar sands project, since the plant was not fully operational at year-end.) An increase of close to \$10,000,000 in depreciation and related charges reflected in part the abandonment of non-productive properties in Venezuela.

Cash dividend payments to shareholders rose by more than \$4,000,000 to \$23,851,000, reflecting the increased number of shares outstanding as a result of the 1966 stock split and stock dividend. In addition to continuing the regular quarterly cash dividend of 25 cents per share, the Company also declared a 5 per cent stock dividend. This resulted in the distribution of 1,222,126 shares to stockholders.

Sun's favorable financial position at year-end was reflected in the fact that current assets were more than double current liabilities. Current assets rose by more than \$35,000,000, primarily reflecting an increase of some \$20,000,000 in short term investments. These funds are available for debt reduction or such other purposes as your management may decide. A drop of approximately \$2,000,000 in crude oil and refined product inventories resulted from a substantial reduction of product stocks. This improved Sun's inventory position relative to market demand.

During the year, the Company invested more than \$18,000,000 in affiliates and in support of the activities of subsidiary companies.

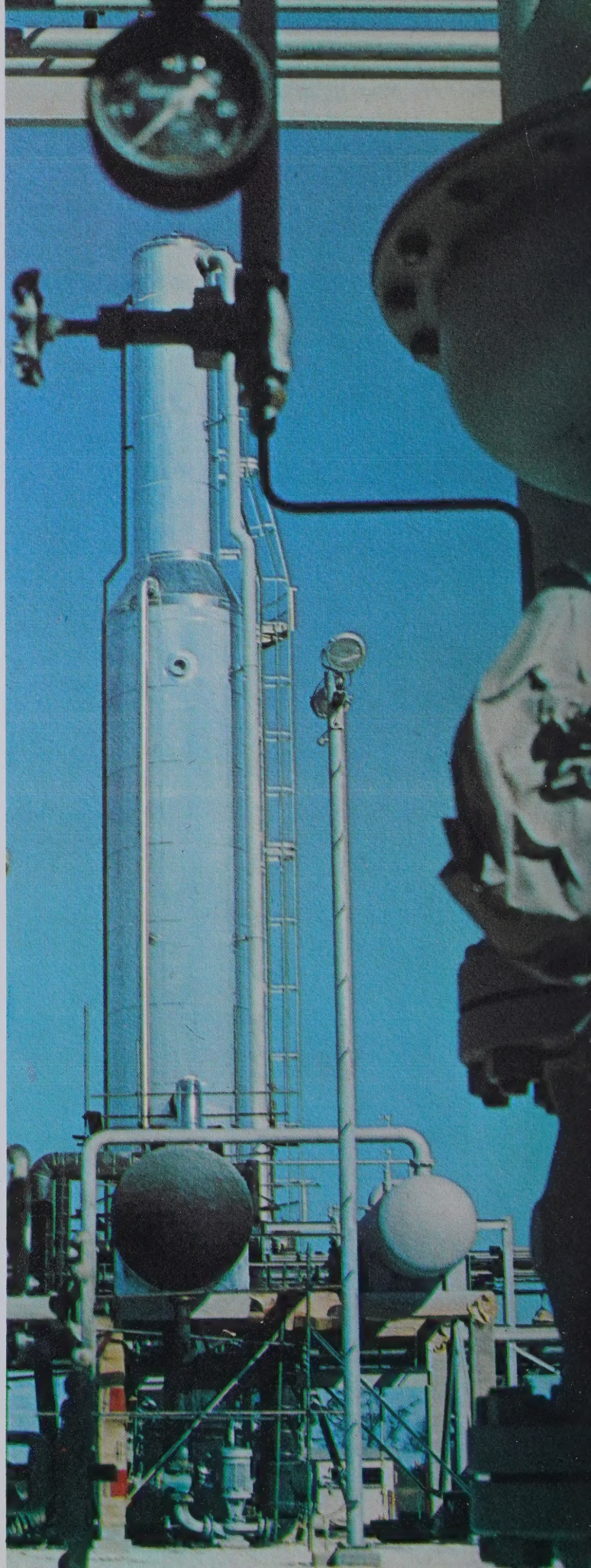
Long-term debt advanced by some \$66,000,000 to \$318,327,000. The increase resulted principally from a \$50,000,000 borrowing by the parent Company under a credit agreement arranged in 1964. These funds were used to help carry forward a number of 1967 capital projects. In addition, Sun International Finance Corporation borrowed \$10,000,000 abroad.

Total 1967 capital expenditures of \$220,269,000, including \$29,814,000 for drilling in search for new supplies of oil and natural gas, were well below the 1966 peak of \$352,329,000. The latter figure reflects the large investment in the Athabasca project during 1966.

With a number of major expansion and modernization programs completed or nearing completion by year-end, the Company anticipates a reduction in capital spending in 1968. This year emphasis will shift toward bringing into profitable operation new facilities described in this Report which promise accelerating growth for Sun in the future.

Great Canadian Board Chairman W. Harold Rea welcomes over 600 distinguished guests to formal opening ceremony for Athabasca facilities.

Tar sands dug by giant bucketwheel excavators are carried to top of the primary extraction plant by high-speed conveyors. Excavators will dig over 100,000 tons of tar sands daily.



PRODUCTION

Production, Reserves Boosted During 1967

SUN PRODUCED MORE OIL AND GAS in 1967 than ever before, with domestic crude oil output advancing sharply to meet the steady rise in U.S. requirements and the sudden increase in export demand resulting from the Middle East disturbances.

While boosting production to record levels, the Company also recorded gains in reserves of crude oil, natural gas and natural gas liquids. Contributing to the increases were exploratory and development drilling successes, intensified purchasing of new reserves, and expanded and improved assisted recovery programs.

Looking toward strengthening of its position in the future, the Company obtained new exploratory tracts offshore of Louisiana and in Alaska's Cook Inlet, while expanding exploratory activities in other areas.

Production of crude oil and condensate in the U. S. and Canada rose by 11.6 per cent to 49,739,000 barrels. This increase more than offset a modest decline in Venezuelan output to 33,076,000 barrels. Total liquids, including 8,279,000 barrels of processed natural gas liquids, rose to a record high.

Sun drilled or participated in drilling 469 wells. These included 436 in the U. S. and Canada, as compared with 569 in 1966. The other 33 were drilled by Sun and associates in Venezuela, South Australia, the Persian Gulf and the British North Sea (see page 17).

The Company's net for the year was 298 wells, including 142 oil producers, 57 gas wells, and 99 dry holes.

Among the significant discoveries were deep gas wells in the East Laketon Field in the Texas Panhandle, in the West Waha Field of West Texas, and in the Arrowhead Field near the Rio Grande in South Texas. The West Columbus Field, a Michigan gas discovery, already has nine producing wells. Nine new discoveries or extensions were recorded in Canada. An important discovery also was made on a Sun farm-out in the Black Diamond area of Alberta, near the Turner Valley Field.

Development of the Fordoche Field in South Louisiana continued to highlight activity along the Gulf Coast. Fourteen tests there netted 12 oil producers, nine of them producing from two sands. Development drilling also continued at Belle Isle and Lake Pelto, and in offshore areas of Louisiana. Among other aggressive programs were those in Northeast Carleton and Karns Fields in western Oklahoma, Tom Branch Field in Mississippi, Cato Field in southeastern New Mexico, and Seeligson Field in South Texas.

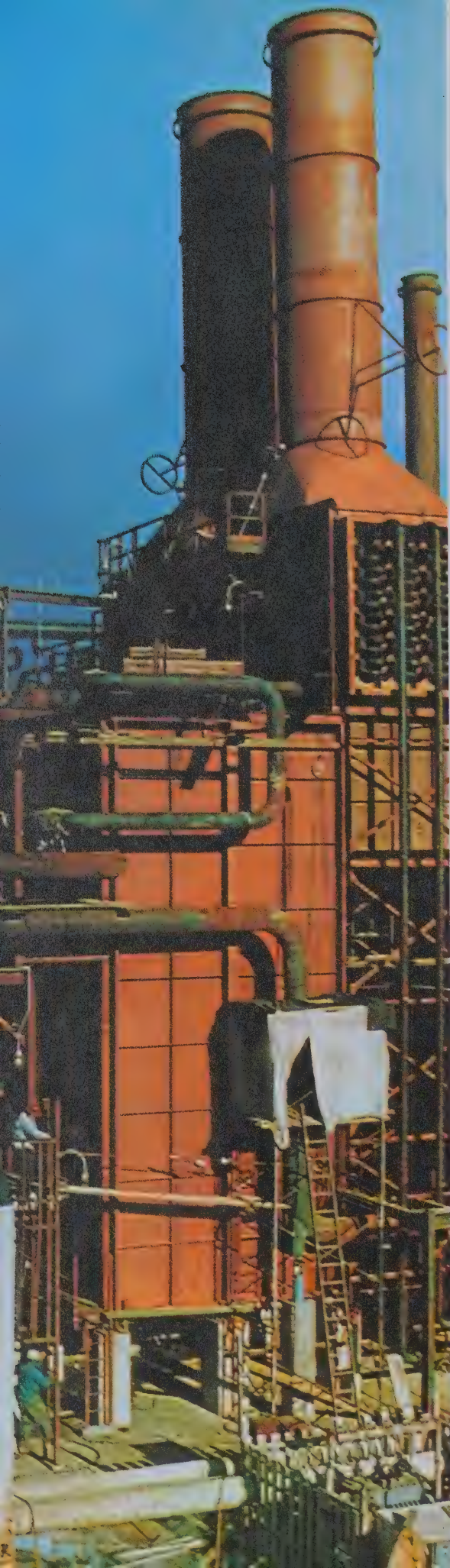
In participation with others, Sun acquired eight tracts totaling 36,457 acres in the eastern Louisiana federal offshore sale and four tracts totaling 9,600 acres in Cook Inlet of Alaska. With other groups, geophysical surveys continued off the shores of Texas, Louisiana, Mississippi, Alabama, Florida, California and Alaska.

In Canada, a group including Sun Explorations of Quebec Ltd. began drilling a test well in the Gaspé area. Sun also is a participant in an agreement for evaluation and possible land acquisition in the Mackenzie Basin area of the Northwest Territories, and is taking part in a geophysical survey of extensive permits in Hudson Bay.

Natural gas operations continued to be plagued by the problems of costly federal regulation, but several notable accomplishments were recorded. Among these were completion of a new gas processing plant that will recover 100,000 gallons daily of liquefied petroleum gases at Belle Isle, and the signing of an intrastate sales contract allowing the Katy Field in Texas to go on stream. Sun's interest is 10 per cent.

Drill starts 4½-mile probe in western Oklahoma late in 1967. Slated depth of 23,000 feet would make well, W. M. Green No. 1, among deepest tests ever drilled in state.

Completion of Belle Isle plant, located on island rising out of marshlands on Louisiana coast, adds substantially to Sun's gas processing capacity.



MANUFACTURING

Refinery Expansion, Modernization Pushed

AT ALL SUN REFINERIES, 1967 was a year of growth. Rising curves on production charts for petrochemicals and other higher-value products paced rising towers and steel work of new units as the Company advanced expansion projects designed to increase and upgrade refinery output.

At Marcus Hook, propylene production increased by 42 million pounds, or 21 per cent, and gasoline production topped the previous year by about 4 per cent. Also, more lubricating oils were produced than ever before—exceeding the record-breaking previous year by 200,000 barrels. At Toledo, naphthalene production and sales hit new highs, with output equivalent to operation of the unit at 15 per cent over design capacity.

Crude runs increased slightly at Marcus Hook but fell off at both Toledo and Sarnia, resulting in a net decrease for the year of 2,607,000 barrels, or 2.6 per cent. The decline was caused by extended downtime due to postponement of repairs from 1966, operating difficulties and equipment modifications to permit processing of Athabasca crude.

Highlighting construction for the year was the \$50,000,000 expansion program at Toledo. Heart of the program is the 21,700 barrels daily hydrocracking plant expected to go on stream in mid-1968. The plant will upgrade gas oils and heavy naphtha (kerosine) into high-octane gasoline. A steam methane reformer will provide up to 42,000,000 cubic feet of hydrogen daily as needed by the hydrocracker. Also a part of the program is the construction of a catalytic reformer which will produce 21,600 barrels daily of gasoline from heavy naphtha. This complex will enable the refinery to convert 80 per cent of its input into gasoline. A digital computer will be installed on the hydrocracker to measure and record about 950 different variables in the manufacturing process.

A crude tower and a vacuum tower were revamped to increase crude refining capacity by 12,000 barrels daily to 112,000, and to accommodate synthetic crude oil from the Athabasca sands. Also under construction at Toledo was a carbon dioxide liquefaction plant owned by the Cardox Division of Chemetron Corporation. Being built on land leased from the refinery, the plant will liquefy and solidify carbon dioxide from the steam methane reformer for use in carbonated beverages, fire fighting equipment and refrigeration.

Construction activity at Marcus Hook centered around the catalytic reformer scheduled to go on stream in early 1968. Costing about \$9,000,000, the reformer will convert 10,000 barrels a day of light naphtha into high-octane gasoline. To provide steam for the new reformer and other needs, a \$2,000,000 boiler was completed earlier this year.

Improved specialty oils and lubricants are being produced in Marcus Hook's \$4,600,000 lubricating oil plant, which went on stream last spring. With a capacity of 9,400 barrels a day, the plant makes oils with improved color and oxidation stability for use in the rubber, grease, automotive, electrical and refrigeration industries.

To meet large-volume industrial grease needs, bulk handling and storage equipment was placed in service in 1967. Six heated and insulated tanks store grease from the time it is blended into final form until it can be pumped into specially designed tank trucks.

Automation of tank farm operations at Marcus Hook progressed with the completion of one project for remote valve and pump operation. Other tank and pipeline projects costing \$1,500,000 are now under way.

Growth and development of Sun people also received increased emphasis during the year, with both technical and management training programs conducted for refinery employees.

Furnace (left) for catalytic reformer being built at Marcus Hook refinery will preheat naphtha feedstock before it enters the reformer reactors where it is converted into gasoline.

Tall towers rising skyward at Toledo will recover carbon dioxide, a by-product of the hydrogen production process, by selective absorption.

Specially designed tank trucks are used to transport grease in bulk shipments from the Marcus Hook refinery to Sunoco industrial customers.

One million man-hour safety records earned the Marcus Hook Instrument Department and the Refinery Laboratory, represented by Philip Turner (second from right) and Vernon F. Graham Jr. (right), the congratulations of Sun President Robert G. Dunlop (left) and Refinery Manager Walter C. Huffman.



MARKETING

Sales Hit Record High, Stations Modernized

IMPROVED SERVICE TO CUSTOMERS in all phases of operations was the major goal of Sun's expanded marketing activities during 1967. In working to achieve that goal, the Company invested heavily in new station construction and station modernization, broadened the utility of Sunoco credit cards, launched a new Sunny Dollars promotion, modernized distribution facilities and introduced new techniques for handling customer inquiries.

Refined product sales for the year climbed to a record 118,933,000 barrels. Substantial revenue gains resulted from a firming of gasoline prices and rising sales of higher-octane blends.

A record investment of some \$42,420,000 was made in new and improved facilities in the parent Company's 23-state marketing area. Largest outlays were for new stations promising high volume and dealer profit potential. Sunoco continued to emphasize the importance of outlets on the Interstate highway system. By year-end, the number of completed Interstate stations jumped to 269, up from 189 in 1966. Sites under construction totaled 47. Another 149 locations have been selected for future construction.

Beautification and modernization were stressed throughout the year. Hundreds of stations were remodeled, enlarged and landscaped for dealer profitability and customer acceptance. Many outmoded, low-gallage stations were abandoned and others were replaced by attractive and better-located outlets. In the Ohio Valley marketing area, more than 500 dealers supported a regional landscaping campaign by planting some 200,000 colorful petunias at their stations.

Symbolizing an expanded emphasis on station design is Sunoco's Columbia, Md., outlet (see back cover) midway between Baltimore and Washington. Designed by a nationally recognized architectural firm, the ranch-style station features attractive appearance and maximum customer convenience.

Sunoco's first facility for the electronic analysis of automobiles, an eight-bay Car Care Center in Springfield, Pa., was opened early in 1968. Technicians use an autocomputer to identify needed repairs by comparing a car's performance with the manufacturer's specifications. Several smaller versions of the Center are planned for selected marketing areas.

A new multigraded motor oil, Sunoco Special 10W-40, was introduced to the automotive public. Designed to protect engines at more widely varying temperatures throughout the year, the motor oil won rapid customer acceptance.

In September the Company opened a new, large bulk terminal near New Brunswick to service expanding New Jersey markets. This Piscataway Terminal receives products from the Marcus Hook refinery by pipeline, improving efficiency in supplying the South Amboy district. Distribution efficiency was further improved with the opening of a new North Carolina marketing district in Charlotte. Simultaneously, operations at the Roanoke district ceased. Modernization of bulk terminals included the installation of high-speed unloading facilities for jumbo tank cars in Cleveland.

Early in the year, the Company strengthened its position in the market by concluding a credit exchange agreement with five oil companies. As a result, Sunoco credit cards may be used in all 50 states and most of Canada at Union 76, Pure, Skelly, Husky and Irving outlets.

Credit card applications and credit-related inquiries, as well as monthly billings, received top priority at Sun's newly organized Credit Card Center in Wayne, Pa. The Company's credit card business increased substantially. Also, customer communications were improved by a newly established Customer Relations office in Philadelphia. The new office is geared for rapid

Attractive colonial station located in Bellmawr, N.J., reflects Sunoco's drive to modernize retail outlets.

Sunoco's first Car Care Center in Springfield, Pa., scientifically evaluates engine operating efficiency, pinpoints trouble spots for customer.

SPECIAL REPORT

Variety and Quality Mark
Sun Industrial Products

FROM SKATING RINKS to shoes to metal-working, Sunoco industrial products help to perform a vast variety of jobs.

That attractive Swiss miss is skating on a rink frozen by compressors using Sun refrigeration oil. And besides the wax polish *on* that shoe, there's a specially compounded wax *in* the shoe—to keep the shank from squeaking. The grinding oil helping to put a new twist in drill production is another Sun product for industry.

These pictures helped tell Sun's industrial products story to potential customers across the country in an advertising campaign last year.

It's quite a story. For Sun produces hundreds of lubricants, specialty oils, waxes and petrochemicals for industry. And in 1967, total sales advanced to a record high.



handling of inquiries on travel, products and other Company-related matters.

More than a half-million racing enthusiasts across the nation witnessed the winning performance of the *Sunoco Special*, a sports racer fueled and lubricated with Sun products. Driver Mark Donohue piloted the *Special* to a record-shattering sweep of the U.S. Road Racing Championship, with six triumphs in seven starts.

Total sales of industrial products advanced to a record level, sparked by Sun's significant penetration of the fast-growing fleet market. The new Sunfleet multiviscosity motor oil won wide acceptance by utility and telephone company fleets. Nine new wholesale distributors of Sunoco motor products were added as part of an on-going program to expand the fleet market.

Completion of a new lubricating oil plant made possible development of a new line of light-colored, non-staining oils which are expected to find broad use in the rubber, textile and chemical process industries. Also, Sun's position in the agricultural market was strengthened by the introduction of Sunoco Folicote, a wax formulation that prevents water loss from plants and nursery stock.

Climbing to record levels for the fourth consecutive year were sales of tires, batteries and auto accessories. Tires led the increase in sales volume, experiencing a boost of more than 21 per cent. Product improvements included the introduction of a new Big Trac tire made with polyester cord.

The advertising theme, "People on the Go," continued to highlight active young people in a variety of sport and recreation pastimes. Radio and television advertising was intensified with sponsorship of baseball, football and basketball games.

TRANSPORTATION

Record Volumes of Oil Moved During Busy Year

LAND, SEA AND AIR TRANSPORTATION is playing an increasingly important role as Sun's activities expand both in volume of oil handled and in geographical area. During 1967, record amounts of crude oil and products were hauled to refineries and to market. And varied construction projects from Alberta, Canada, to Sun Terminal, Texas, called for stepped-up moving of men and materials.

Over the year, the ocean fleet of tankers delivered to Marcus Hook refinery 51,159,000 barrels of oil. This was an increase of nearly 7 per cent over 1966. In addition, more than 15 per cent of fleet ship time was chartered to other companies at profitable rates.

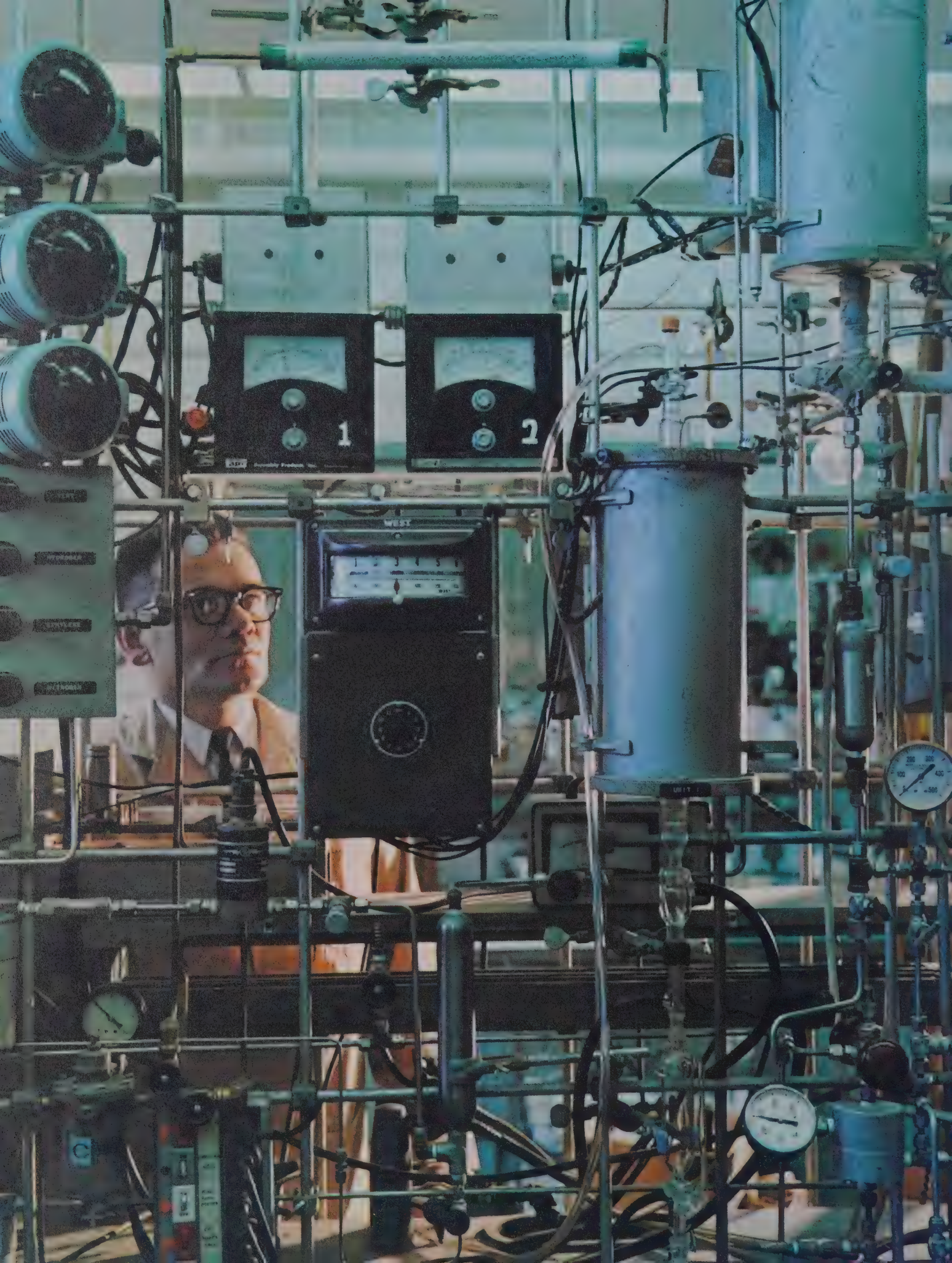
Plans were made for the acquisition in 1968 of a 38,000-barrel self-propelled barge for carrying finished products through the Great Lakes and inland waterways. Efficiency of tanker loading operations at Sun Terminal is being improved through the installation of new pumps and pipelines nearly doubling the station's loading capacity.

To insure the Marine Department's ability to control oil spills, extensive testing was carried out on a variety of chemicals. One of these, a compound demonstrated on the Delaware River before members of the press, government and industry, looked promising for cleaning up spills and was purchased for Sun's tankers, barges and marine terminals.

More effective utilization of the Company's aircraft boosted passenger miles flown by some 190,000, even though total hours flown declined by some 500. Over 16,000 passengers were carried 2,535,500 miles.

The Traffic Department handled customs and shipping of more than 120,000 net tons of equipment and materials for the Athabasca tar sands project for some \$2,400,000 less than originally anticipated.

New chemical agent for cleaning up oil spills was demonstrated on the Delaware River before industry, press and government representatives.



RESEARCH

Product, Exploration Research Advanced

SUNOCO RESEARCH SCIENTISTS and engineers contributed significantly in 1967 to strengthening the Company's present position and improving its potential for future growth.

Eighty-eight U.S. patents were awarded to the parent Company, and 14 to subsidiaries. Sun now holds a total of 1,385 unexpired U.S. patents. Also, 78 patents issued in Canada and 174 in other foreign countries boosted Sun's total foreign patents in force to over 1,200.

A new gasoline additive was incorporated into Sunoco fuels, providing improved protection against rust and carburetor icing while also acting as a carburetor cleaning agent. Sunoco motor oils were improved to meet the requirements of new cars and higher military specifications, and a series of high-quality, single-grade oils offering exceptional sludge resistance were developed especially for use in taxicab fleets. Several new greases were introduced and three new series of rubber processing oils were developed.

Development activities advanced two chemicals toward market acceptance. Dimethylnaphthalene was supplied in development quantities to a major producer of intermediates for polyester fibers. A new organic chemical, dimethylmuconic acid (DMMA), the first potentially commercial compound to be produced by biological fermentation of hydrocarbons, has been distributed to industry for evaluation of its potential use in pharmaceuticals, fibers, surface coatings and adhesives.

Air conservation research continued with emphasis on emission studies and the development of means for control of combustion products. The Company joined with Ford Motor Company and other petroleum companies in a \$7,000,000 program to reduce emissions from gasoline engines.

Research in the management sciences produced several substantial advances. A computerized linear programming model of Sun's entire refining and distribution network was developed, tested, and implemented for the preparation of optimal operating plans. With this sophisticated decision-aid, Sun can achieve the maximum economic benefits from its products pipeline system connecting two refineries. Long-range planning for the complex Athabasca mining operation has been facilitated by simulating the operations on a computer. The simulation enables determination of the effect of many years of mining in only a few minutes.

Production research and development placed renewed emphasis on geophysics as petroleum exploration focused on the U.S. Continental Shelves, Canada, Alaska and foreign areas. Gravity analysis for exploration studies gained in importance. Research in seismic data analysis was also substantially strengthened.

In assisted crude oil recovery research, four field tests utilizing heat to boost recoverable oil reserves continued in Kansas, Kentucky, Louisiana and Texas. Also, the feasibility of applying the combustion process to specific reservoirs was studied. Other approaches being evaluated include the use of carbon dioxide, foams and polymers to assist in oil recovery.

Production researchers are continuing to explore the possibility of establishing, with other companies, synthetic fuels research programs, while carrying forward evaluations of shale and coal reserves.

Investigation of geothermal prospects for reservoirs of super-heated steam continued in areas including northwest Nevada and California, although delay of enabling legislation under which the Federal government would lease its land clouded this venture with uncertainty.

Economic research included completion of a computerized Corporate Financial Planning Model for immediate projection of the impact of management decisions and economic conditions on Sun's operations.

Bench-sized refinery—actually a reactor in which many catalytic refining processes can be performed—provides means for studying catalyst materials and processes for making chemicals and other products from oil.



SUBSIDIARIES AND AFFILIATES

Oil Search, Pipeline Expansion Stressed

A STEPPED-UP SEARCH for oil and gas abroad, construction of facilities for producing oil in the Persian Gulf, pipeline expansion and delivery of four vessels by the shipyard marked 1967 as an active year for Sun's subsidiaries and affiliates.

Iranian Sun Oil Company and associates completed 10 more development wells in the Sassan Field in the Persian Gulf, raising the total to 14. Laying of a pipeline was nearing completion at year-end, and facilities for handling 200,000 barrels of oil daily should be operative by mid-1968. This group, in which Iranian Sun holds a 12½ per cent interest, also drilled four exploratory wells. One was a new discovery 65 miles northwest of the Sassan Field.

North Sea Sun Oil Company Limited and associates drilled seven exploratory wells and three extensions. An exploratory well drilling at year-end indicated that the Leman Bank Field, discovered by others, apparently extends into acreage held by the group in which Sun has a 23½ per cent interest. Two extensions added additional reserves in the Hewett Field North. Development drilling and the laying of a pipeline are being planned in 1968.

Venezuelan Sun Oil Company completed six more producing wells in Lake Maracaibo in a drilling program started in the third quarter and continuing into 1968. VenSun's share of total production for the year was 33,076,000 barrels, down slightly from 1966. Highlights of 1967 included production of the 500 millionth barrel of oil, and final government approval for a gas utilization and conservation project. The project will recover 571,200 gallons daily of liquids and reinject dry gas into the reservoir. The liquids will be processed in a plant with a capacity of 1,075,200 gallons daily. Sun's share will be 185,000 gallons daily.

Dubai Sun Oil Company participated in two successful confirmation wells in the Fateh Field in the Persian Gulf. This group, in which Sun holds a 5 per cent interest, will begin development drilling in 1968.

Australian Sun Oil Company Limited and associates drilled an unsuccessful wildcat in South Australia. Several exploratory wells are planned for 1968.

Sun Oil Company Limited boosted sales to a record level but reported a decline in earnings due to intensified inflationary pressures and extensive downtime at the Sarnia refinery. The interruption of refinery operations resulted from bringing the new gas plant and alkylation unit on stream and from modifications required for the processing of Athabasca oil.

Introduction of the Sunny Dollars game and other promotional activities helped to increase gasoline sales by nearly 10 per cent. Twenty-two new service stations were completed during the year, and 33 additional outlets were added by sales contracts.

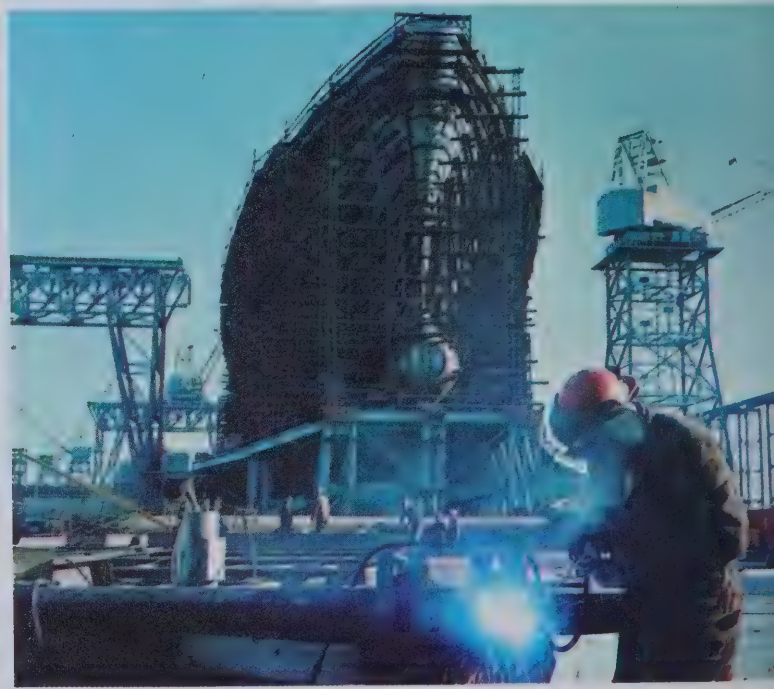
The Company continued its drilling program in western Canada, recording 16 producers out of 25 gross wells drilled.

Sun Pipe Line Company constructed 105 miles of 10-inch product line between Hudson, Ohio, and Pittsburgh, Pa., added three new remote-control pumping stations and modified two others. The new facilities increased capacity of the line interconnecting the Toledo and Marcus Hook refineries by about 35,000 barrels daily.

The Crude Lines Department boosted volume of oil gathered by some 15 per cent and trunk-line shipments by more than 9 per cent as Texas producing allowables were stepped-up due to the Middle East crisis.

Foreign marketing companies achieved substantial growth during 1967. Japan Sun Oil Company completed and placed in operation a lubricating

Iced tea for hot, thirsty pipeliners was sold by enterprising youngsters who set up their stand along the right-of-way as Sun Pipe Line Company's new 105-mile line was being laid through Boardman, Ohio, during 1967.



oil blending plant near Tokyo. The combined sales of British Sun Oil Company Limited, Netherlands Sun Oil Company and Sun Oil Company (Belgium) S.A. rose to a record level, and Sun Oil International, Inc., continued to advance its plans for marketing Sun's foreign crude.

Sun Shipbuilding & Dry Dock Company reported substantially improved profits as four vessels were delivered during 1967.

The last three vessels of a six-ship contract with Grace Line went through sea trials and were placed in service. Also, the world's first gas turbine-powered ship, the *Admiral William M. Callaghan*, was launched in October and is now in service to the Navy's Military Sea Transport Service. The ship is being operated for MSTs by Sunexport, a joint venture of Sun Ship and American Export Isbrandtsen Co., Inc.

The yard further advanced its building program with the keel laying and launching of the *S. S. Ponce de Leon*, which was nearing completion at year-end. Built for Transamerican Trailer Transport, in which Sun Ship owns a minority interest, it is the world's first completely roll-on, roll-off trailer ship. It will operate between New York and Puerto Rico. Also, the first ship of a five-ship contract for United States Lines was launched, work continued on a second, and keels were laid for the third and fourth vessels. This contract was expanded for the second time, and now provides that all five ships will be fully containerized vessels.

Sperry-Sun Well Surveying Company reported a very satisfactory gain in net income on revenues that topped 1966 by 28 per cent. Foreign business expanded as a result of two new agencies, one in the North Sea and one in Venezuela, and domestic field operations advanced by 20 per cent.

Contributing to the record year were new contracts with the Atomic Energy Commission for work on Amchitka Island in the Aleutians, Tonopah Test Area in Nevada, and Project Gasbuggy in New Mexico.

Cordero Mining Company expanded its mineral exploration and development organization in 1967. In metallic prospecting, it examined 98 properties in 10 western states for the presence of 18 minerals. Uranium prospecting, the Company's second major field, led to the acquisition of 23 properties for additional development.

Avisun Corporation, a wholly-owned subsidiary manufacturing polypropylene resins and films, was sold to Amoco Chemical Corporation in January, 1968. The company experienced a satisfactory year in 1967.

SunOlin Chemical Company, an affiliate, expanded manufacturing and distribution facilities during a busy year. However, both revenues and net income declined from 1966 levels. Contributing to the decline were weak prices for urea, ethylene oxide and ethylene, all large-volume products, and expiration of a carry-forward tax loss.

A 60 per cent expansion of the ethylene unit was completed in the third quarter, the new facilities placed in operation, and shipments initiated in December. Also completed late in the year was an eight-mile spur line connecting with the pipeline crossing under the Delaware River, for shipping hydrogen to duPont's Gibbstown, N.J., plant.

Mid-Valley Pipeline Company, an affiliate, in early 1967 arranged to purchase approximately a nine per cent interest in Capline. This 40-inch pipeline, now under construction, will be the largest capacity crude line in the U.S. It will run 630 miles, connecting St. James, La., and Patoka, Ill. Mid-Valley's share will result in an initial capacity increase of 38,000 barrels daily.

Standard Naphthalene Products Company, Inc., an affiliate, increased its earnings in 1967 as strengthened markets led to improved profit margins.

New oil blending plant (left) located near Tokyo was completed and opened by Japan Sun Oil Company during 1967.

Flow station on Lake Maracaibo is one of seven highly-automated facilities handling oil production for VenSun.

World's first gas turbine-powered ship (left), the *Admiral Wm. M. Callaghan*, is launched by Sun Ship, Chester, Pa.

S.S. Ponce de Leon, fastest ship in commercial service in merchant marine, is readied for launching by Sun Ship.

Capline crossing (left) of Mississippi required eight auxiliary barges to support pipe in lowering it to bottom.

Six giant tanks go up on Lavan Island to store crude oil from Sassan Field for Iranian Sun Oil and associates.

EMPLOYEES

Wage Gains, Training Benefited Sun People

GAINS IN WAGES AND BENEFITS along with broader opportunities for personal development marked another year of progress for Sun employees. In all, employees in the Oil Division received a record \$201,841,000 in wages and benefits.

While relations between the Company and its employees continued to reflect a significant unity of purpose, lengthy negotiations between Sun and certain collective bargaining units reflected the continuing inflationary pressures adversely affecting purchasing power and take-home pay.

Beginning in late November, employees covered by the Fair Labor Standards Act's wage and hour provision received a 4 per cent wage increase. The previous January, higher shift differentials were granted and various wage adjustments were made to conclude the 1966 wage bargaining agreement.

During the year, Sun also increased its contribution to some benefit plans, which reduced their cost to employees. And in November the Company offered to liberalize the pension plan's early retirement and disability clauses.

Sun's 42nd stock purchase plan for employees opened on July 1 with 82.5 per cent of eligible employees participating, the highest percentage since 1957. Participants in the plan maturing on June 30 received 336,921 shares of Sun stock valued at more than \$23,600,000. This was a four-for-one return on their original \$5,900,000 investment.

Sun also continued to encourage employees in self-improvement through various Company-sponsored programs. In all, 529 employees in the Philadelphia area attended 17 Sun Oil Evening School courses ranging from science to managerial practice. Under the Educational Assistance Plan, Sun paid tuition and book costs (75 per cent, up to \$650) for some 700 employees to pursue further formal education.

Continuing in-Company training programs included sessions in management policy, practices and supervisory techniques for first line supervisors; technical training for scientific and engineering personnel at Marcus Hook and Toledo; and various developmental programs for Sun salaried and management personnel in Philadelphia, Dallas, Beaumont, Marcus Hook and Toledo.

Sun's intensive recruiting procedures successfully filled most of its manpower needs, despite the continuing national shortage of high quality professional people. These included a "job fair" for Philadelphia area college graduates and participation in a Chamber of Commerce-sponsored program for vacationing local students.

In the spring, the Company sponsored 12 more National Merit scholarships for children of employees and two Sun Achievement Scholarships for outstanding Negro students. It also provided assistance to 41 colleges and universities during the 1967-68 school year.

During the year, Sun continued to demonstrate its active support of the President's Committee on Equal Employment Opportunity by increasing its efforts to recruit members of minority groups and by helping to finance programs designed to assist them in employment, training and education. In the Philadelphia area, it also initiated in-Company training programs for secretaries and for service station attendants needing more training to qualify for employment.

Continued recognition of Sun's medical program came with an award from the Occupational Health Institute, which cited the Company's medical centers in Philadelphia, Toledo and Marcus Hook, for maintaining the Industrial Medical Association's medical service standards.

Financial and Statistical Section

1967 Annual Report

Sun Oil Company



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and Stockholders' Equity
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- 32** Crude Oil Production, Residue
Natural Gas and Reserves
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This Financial and Statistical Section is designed to serve as a convenient reference for significant background data on the operations of Sun Oil Company. It is bound separately and can be removed from the Report for filing.

(See Accompanying Notes)

Consolidated Statement of Financial Position

Sun Oil Company  and Subsidiaries

At December 31

ASSETS		1967	1966
CURRENT ASSETS			
Cash.....	\$	51,246,000	\$ 51,099,000
Short Term Investments, at cost.....		54,195,000	34,792,000
Accounts and Notes Receivable.....		173,208,000	162,599,000
Crude Oil and Refined Products.....		76,567,000	78,636,000
Materials and Supplies.....		25,628,000	24,473,000
Work in Process.....		19,571,000	13,179,000
Total Current Assets.....		400,415,000	364,778,000
LONG TERM RECEIVABLES AND INVESTMENTS			
Notes Receivable from Sale of Properties.....		16,501,000	19,269,000
Investment in Affiliated Companies.....		33,637,000	29,089,000
Other Investments, at cost.....		23,795,000	9,724,000
		73,933,000	58,082,000
PROPERTIES, PLANTS AND EQUIPMENT.....		1,763,480,000	1,613,662,000
Less Depreciation and Depletion.....		686,605,000	653,561,000
		1,076,875,000	960,101,000
PREPAID AND DEFERRED CHARGES			
Pension Costs.....		26,553,000	8,593,000
Excess of Cost of Investments in Subsidiaries over Equities in Net Assets Acquired.....		11,141,000	12,708,000
Other.....		9,596,000	7,266,000
		47,290,000	28,567,000
		<u>\$1,598,513,000</u>	<u>\$1,411,528,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities.....	\$	114,163,000	\$ 109,622,000
Notes and Bonds Payable.....		16,631,000	2,206,000
Taxes, other than Income Taxes.....		30,485,000	37,692,000
Income Taxes.....		35,766,000	26,079,000
Total Current Liabilities.....		197,045,000	175,599,000
LONG TERM DEBT			
Sun Oil Company.....		144,924,000	117,733,000
Subsidiaries.....		173,403,000	134,225,000
		318,327,000	251,958,000
DEFERRED CREDITS			
Income Taxes.....		21,578,000	13,051,000
Sales of Properties and Future Oil Production.....		25,374,000	28,672,000
Other.....		3,215,000	2,227,000
		50,167,000	43,950,000
MINORITY INTEREST.....		6,350,000	6,294,000
STOCKHOLDERS' EQUITY.....		1,026,624,000	933,727,000
		<u>\$1,598,513,000</u>	<u>\$1,411,528,000</u>

(See Accompanying Notes)

Consolidated Statement of Source and Application of Funds

Sun Oil Company  and Subsidiaries

FUNDS WERE DERIVED FROM		
	1967	1966**
Net Income.....	\$108,576,000	\$100,574,000
*Recovery of Capital (Depreciation and Retirements).....	69,686,000	59,877,000
Deferred Income Taxes.....	8,527,000	5,910,000
Contribution of Treasury Stock to Pension Fund.....	15,853,000	—
Borrowings.....	82,164,000	90,130,000
Affiliates and Other Investments.....	—	19,005,000
Other Sources.....	4,996,000	4,569,000
Reduction in Working Capital.....	—	70,917,000
Total Funds Available.....	<u>\$289,802,000</u>	<u>\$350,982,000</u>
FUNDS WERE USED FOR		
*Capital Expenditures.....	\$190,455,000	\$317,764,000
Cash Dividend Payments.....	23,851,000	19,646,000
Prepayment of Pension Costs.....	17,960,000	8,593,000
Purchase of Treasury Stock.....	8,931,000	4,745,000
Affiliates and Other Investments.....	18,619,000	—
Reduction of Prior Borrowings.....	15,795,000	234,000
Addition to Working Capital.....	14,191,000	—
Total Funds Used.....	<u>\$289,802,000</u>	<u>\$350,982,000</u>
*Not including Intangible Development Costs of.....	<u>\$ 29,814,000</u>	<u>\$ 34,565,000</u>

**Restated to conform to 1967 presentation.

Accounting and Financial Notes

SUN OIL COMPANY and SUBSIDIARIES

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries owned more than 50 per cent. The parent Company's equity in the net assets of the consolidated subsidiaries at December 31, 1967, exceeded the cost of these investments by \$77,579,000, which amount is included in consolidated earnings em-

ployed in the business. Approximately \$222,000,000 of net assets at December 31, 1967 pertain to subsidiaries operating outside of the United States, principally in Canada (\$172,000,000) and in Venezuela (\$24,000,000).

The financial statements also include Sun's equity in the undistributed earnings of the affiliated companies in which it owns a proprietary half interest. The increase in such equity, amounting to \$3,593,000 in 1967 and \$2,950,000 in 1966, is included in other income.

Avisun Corporation, previously a 50 per cent owned affiliate, was acquired as a wholly owned subsidiary at the end of 1966. Accordingly the statement of income for 1966 includes only Sun's one-half share of Avisun's net income.

Appropriate rates of exchange have been used to convert foreign currency statements to U. S. dollars. The conversion gains or losses, which are not significant, are included in consolidated income.

Inventories

Crude oil inventories are valued generally on a last-in, first-out pricing method based upon the market prices of crude oil prevailing in the field at the time of production or purchase, plus the cost of transportation to the refineries.

Refined products inventories are valued generally on a last-in, first-out pricing method based upon the value of the oils taken out of inventory for refining (as computed above), plus refining costs. Transportation costs from refineries to marketing centers are carried at average costs.

At December 31, 1967, approximately 29 per cent of the value of crude oil and refined products inventories, principally in Canada, is valued at first-in, first-out or average cost.

Crude oil and refined products inventories, as valued on the foregoing bases, are stated at less than market.

Materials and supplies are valued at cost or less, principally on the basis of average cost. Work in process inventories are valued at cost less progress billings.

Properties, Plants and Equipment, at cost

	December 31	
	1967	1966
	(Thousands of Dollars)	
Gross Investment		
Production	\$ 499,276	\$ 455,494
Manufacturing	455,880	399,322
Marketing	391,351	350,694
Transportation	137,296	129,368
Mining	238,174*	238,112*
Shipyard	36,295	35,347
Administrative and Others	5,208	5,325
	<u>1,763,480</u>	<u>1,613,662</u>
Less Depreciation and Depletion	686,605	653,561
Net Investment	<u>\$1,076,875</u>	<u>\$ 960,101</u>

*Includes short term investments of \$5,922,000 in 1967 and \$63,317,000 in 1966 set aside for plant and facilities of Great Canadian Oil Sands Limited.

Approximately 96 per cent of net investment at the end of 1967 was located in the United States and Canada, compared with 95 per cent at the end of 1966.

Plant and equipment purchased from Sun Shipbuilding & Dry Dock Company, a subsidiary, is included at cost to Sun Oil Company, less depreciation. It has been the consistent policy of the company to pay this subsidiary the same price for its work as is paid by outside companies for similar work.

Depreciation, Cost Depletion and Retirements

Depreciation policy, for accounting and tax purposes, is designed to recover on a straight-line basis the cost of properties, plants and equipment during their estimated useful lives. Experience is reviewed from time to time and rates are revised when necessary.

The cost of developed or producing leaseholds, which excludes intangible development costs, is depleted on the basis of crude oil and natural gas produced from the properties leased. For income tax purposes, a mineral depletion allowance is deducted when in excess of depletion based upon cost.

The cost of undeveloped leaseholds cancelled or surrendered during the year is customarily charged to income. This charge amounted to \$15,613,000 in 1967 and \$10,350,000 in 1966.

Intangible Development Costs

Consistent with past policy, the cost of drilling wells to develop new sources of crude oil and natural gas is charged to income as incurred. Included in intangible development costs is dry hole expense of \$7,906,000 in 1967 and \$12,884,000 in 1966.

Contingent Liabilities and Commitments

Sun is contingently liable for guarantees of loans payable by associated companies and others approximating \$22,000,000 at December 31, 1967. Management considers that losses, if any, from these guarantees would not be significant.

Included in costs and expenses as rents and royalties are amounts of \$26,919,000 in 1967 and \$25,661,000 in 1966 which are considered an indication of future annual rentals. Approximately one-half of these amounts is recovered as service station rental income. The amounts of royalties are not significant.

Rents include all rentals due for the year, principally on real property under lease, and cover the mineral rights on properties being explored for crude oil and natural gas, service stations, offices, warehouses and rights of way.

When lessors' shares of crude oil and natural gas,

produced under the terms of the leases, are acquired from the lessors, they are considered to be purchases.

Other than rentals mentioned above, the company does not have any significant long-term lease commitments.

Taxes

Direct taxes, excise taxes collected from customers and payroll taxes withheld from employees are shown in the following table:

	1967	1966
	(Thousands of Dollars)	
Paid or Accrued		
Capital Stock and Franchise	\$ 1,557	\$ 1,590
Social Security	7,068	6,646
Crude Oil and Natural Gas		
Production	35,691	35,638
Ad Valorem	14,806	13,370
Import Duties, Transportation,		
Excise and Miscellaneous	2,715	2,728
Gasoline, Lubricating Oil,		
Use and Sales	2,561	2,489
	<u>64,398</u>	<u>62,461</u>
Income Taxes		
Federal	24,700	16,600
Foreign and Other	13,670	14,370
	<u>38,370</u>	<u>30,970</u>
	<u>102,768</u>	<u>93,431</u>
Collected and Paid		
Excise taxes collected		
from customers	272,371	270,888
Taxes collected from		
employees	35,278	30,171
	<u>307,649</u>	<u>301,059</u>
Total	<u>\$410,417</u>	<u>\$394,490</u>

Taxes collected from customers and employees are not included in the consolidated statement of income.

Investment tax credits of \$5,900,000 in 1967 and \$5,752,000 in 1966 have been applied as a reduction of federal income tax expense.

The provision for income taxes includes deferred amounts of \$8,527,000 in 1967 and \$5,910,000 in 1966, relating principally to additional deductions for past service pension costs allowable currently for tax purposes.

Pension Plans

Sun and certain of its subsidiaries have contributory funded pension plans providing retirement benefits for their employees. The total expense for these plans was \$20,600,000 in 1967 and \$18,300,000 in 1966, which includes amortization of past service costs prin-

cipally over 30 years. The Companies' policy, with minor exceptions, is to fund pension cost accrued plus additional amounts as may be deductible for income tax purposes. The value of vested benefits under the plans, using most recent actuarial calculations available, exceeds the total of the pension funds by approximately \$125,000,000. The pension funds include \$26,553,000 of prepaid pension costs.

Long Term Debt

The current portion of long term debt, amounting to \$15,626,000 in 1967 and \$231,000 in 1966, is included in Notes and Bonds Payable. Long term debt due after one year at December 31 includes the following:

	1967	1966
	(Thousands of Dollars)	
Sun Oil Company		
Sinking Fund Debentures, 4½%, due November 15, 1990 with annual payments of \$4,000,000, 1970-1989, \$20,000,000 in 1990	\$100,000	\$100,000
Notes Payable, 4.571%, transferred to a wholly owned subsidiary in 1967	—	17,733
Notes Payable to Banks under credit agreement, 4½%, payable in quarterly installments March 31, 1969—December 31, 1974	42,857	—
Other Notes Payable	2,067	—
Subsidiaries		
Notes Payable to Banks under credit agreement, 4½%, payable in quarterly installments March 31, 1969—December 31, 1974	42,857	50,000
Notes Payable, 5¾%, due July 1, 1991 with annual payments of \$2,000,000, 1971-1990, \$10,000,000 in 1991	50,000	50,000
Convertible Debentures, 6%, due May 15, 1975	11,597	11,597
Notes Payable, 6½-6¾% short-term notes to be refinanced	29,854	20,627
Notes Payable, 4.571%, transferred from parent Company, assumed by buyer upon sale of Avisun Corporation in January 1968	16,466	—
Notes Payable, 6¾%, due January 1, 1972	10,000	—
Other Notes and Mortgages Payable	12,629	2,001
	<u>\$318,327</u>	<u>\$251,958</u>

Common Stock

The changes in common stock during 1967 are summarized as follows:

	Number of Shares	Thousands of Dollars
Issued		
Balance December 31, 1966	24,433,620	\$809,288
5% Stock Dividend	1,222,126	85,549
Proceeds from sale of stock to Stock Purchase Plan for Employees of Sun Oil Company	8,995	593
Excess of market value over cost of treasury stock contributed to pension fund	—	10,557
Balance December 31, 1967	<u>25,664,741</u>	<u>\$905,987</u>
Held in Treasury		
Balance December 31, 1966	636,344	\$ 18,362
5% Stock Dividend	26,040	—
Purchased	135,069	8,931
Stock contributed to pension fund, at cost	(240,000)	(5,296)
Stock used in acquisitions	(10,860)	(657)
Balance December 31, 1967	<u>546,593</u>	<u>\$ 21,340</u>

Subsequent Events

In January, 1968, the managements of Sun Oil Company and Sunray DX Oil Company agreed in principle to a plan to merge their companies through the issuance by Sun of one share of a new cumulative convertible preferred stock, with an annual dividend of \$2.25, for each of the approximately 18,500,000 shares of Sunray DX common stock outstanding. Each share of the Sun preferred would be convertible into .65 of a share of Sun's common stock. Redemption of the preferred stock could be effected by Sun after June 1, 1975, starting at \$60.00 per share. The merger is conditioned upon approval by the Board of Directors and the stockholders of both companies as well as favorable review by appropriate regulatory agencies.

In January, 1968, Sun completed the sale of Avisun Corporation, a wholly owned subsidiary, for \$80,000,000, resulting in an estimated gain after taxes of \$23,000,000. Of the proceeds, \$20,000,000 was received in cash and \$43,534,000 in promissory notes bearing interest at the rate of 6% per annum due in installments from 1971 to 1976. In addition, the buyer assumed liability for long term notes payable aggregating \$16,466,000.

Accountants' Report

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

BOARD OF DIRECTORS
SUN OIL COMPANY
PHILADELPHIA

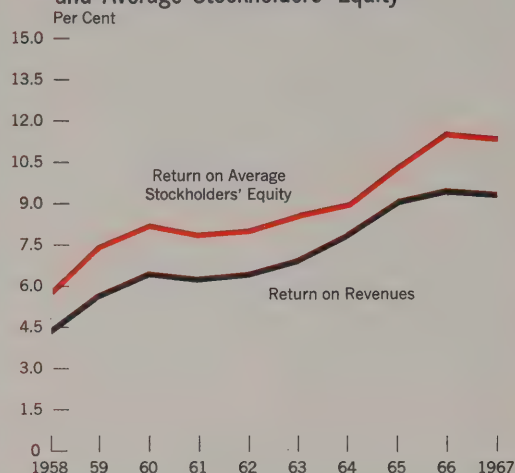
We have examined the consolidated financial statements of Sun Oil Company and subsidiaries for the year ended December 31, 1967. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We also made a similar examination of the financial statements for the year ended December 31, 1966.

In our opinion, the accompanying consolidated statements of financial position, income and stockholders' equity and source and application of funds present fairly the financial position of Sun Oil Company and subsidiaries at December 31, 1967 and 1966, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

Philadelphia, Pa.
February 15, 1968

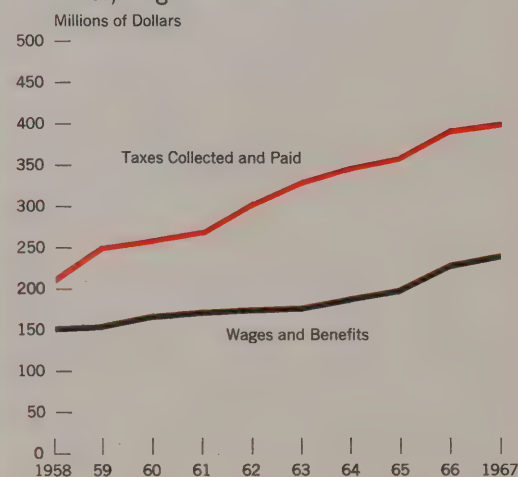
Return on Revenues and Average Stockholders' Equity



Capital Expenditures and Intangible Development Costs



Taxes, Wages and Benefits



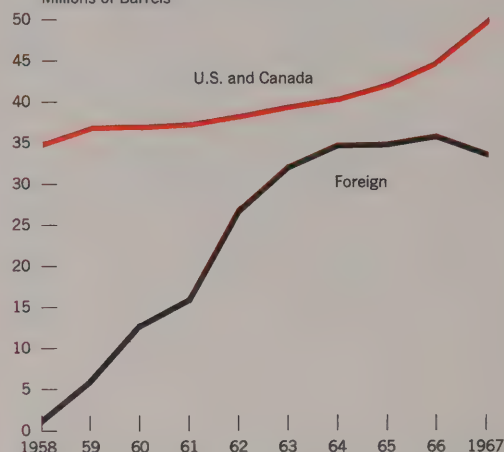
Ten Year Financial Summary • Sun Oil Company

	1967	1966
Revenues—excluding Excise Taxes (Thousands of \$)		
Sales and Other Operating Income.....	1,151,698	1,047,278
Other Income.....	21,552	24,063
Total.....	1,173,250	1,071,341
Net Income (Thousands of \$)	108,576	100,574
Return on Revenues (%)	9.3	9.4
Earned per Full Common Share Outstanding 12/31/67 (\$)	4.32	4.00
Common Stock		
Cash Dividends Paid (Thousands of \$).....	23,851	19,646
Stock Dividends Paid—Per Cent.....	5	6
Shares Distributed (Thousands).....	1,222	1,383
Stock Split.....	—	4 for 3
Shares Distributed (Thousands).....	—	5,763
Number of Stockholders.....	34,537	33,228
Number of Full Shares Outstanding 12/31 (Thousands).....	25,118	23,797
Market Price as Reported by New York Stock Exchange—High..	78 ⁷ / ₈	76
—Low...	49 ¹ / ₄	49 ³ / ₄
Net Assets 12/31 (Thousands of \$)	1,026,624	933,727
U.S. and Canada (%).....	96	95
Other (%).....	4	5
Return on Average Net Assets (%)	11.1	11.3
Capital Expenditures (Thousands of \$)		
Production		
Leases.....	34,009	23,189
Wells and Equipment.....	37,960	24,995
	71,969	48,184
Manufacturing.....	61,023	55,465
Marketing.....	46,629	45,244
Transportation.....	9,556	2,291
Mining.....	31	165,780
Shipyard and Others.....	1,247	800
	190,455	317,764
Intangible Development Costs	29,814	34,565
Total.....	220,269	352,329
U.S. and Canada (%).....	95	98
Other (%).....	5	2
Expenditures for Exploration and Development of Production (Thousands of \$)		
Capital Expenditures.....	59,564	42,535
Intangible Development Costs.....	29,814	34,565
Other Expenses including Lease Rentals	35,230	34,538
Total.....	124,608	111,638
U.S. and Canada (%).....	88	90
Other (%).....	12	10
Taxes (Thousands of \$)		
Operating.....	64,398	62,461
Domestic and Foreign Income.....	38,370	30,970
Paid or Accrued by Company.....	102,768	93,431
Collected from Customers.....	272,371	270,888
Collected from Employees.....	35,278	30,171
Total.....	410,417	394,490
Salaries, Wages and Benefits (Thousands of \$)		
Oil Division—U.S. and Canada.....	196,523	178,373
Other.....	5,318	5,000
	201,841	183,373
Shipbuilding and Repair.....	41,993	40,669
Total.....	243,834	224,042

1965	1964	1963	1962	1961	1960	1959	1958
925,243	838,295	844,142	794,026	775,642	749,767	735,697	721,773
17,478	11,802	11,008	10,245	6,651	5,659	10,568	2,259
942,721	850,097	855,150	804,271	782,293	755,426	746,265	724,032
85,520	68,507	61,216	53,195	49,787	49,273	42,844	32,061
9.1	8.1	7.2	6.6	6.4	6.5	5.7	4.4
3.40	2.73	2.44	2.12	1.98	1.96	1.71	1.28
15,923	15,160	14,399	13,822	13,047	12,319	11,738	11,397
6	5	6	5	6	6	5	3
979	777	878	691	783	739	587	342
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
31,162	30,363	29,908	29,406	28,455	28,392	27,375	25,954
16,852	15,928	15,164	14,493	13,829	13,047	12,326	11,739
67¾	73	59	53¾	59	55½	65¾	69
56¾	50	43½	43	47½	42¾	52¾	59
854,075	784,211	730,593	692,697	654,559	617,819	581,704	550,598
93	94	94	93	92	92	90	91
7	6	6	7	8	8	10	9
10.4	9.0	8.6	7.9	7.8	8.2	7.6	5.9
26,984	20,087	11,975	11,350	13,906	14,243	15,957	16,919
26,255	22,507	16,846	20,005	20,395	22,009	29,120	17,884
53,239	42,594	28,821	31,355	34,301	36,252	45,077	34,803
13,619	9,755	6,172	28,197	21,943	10,070	9,601	6,674
41,830	42,030	27,760	33,968	27,525	16,264	21,288	18,513
2,651	2,216	1,097	1,047	988	6,554	16,970	7,759
72,286	7	23	4	6	28	105	25
776	728	667	1,236	5,069	3,937	923	2,908
184,401	97,330	64,540	95,807	89,832	73,105	93,964	70,682
37,027	32,067	25,874	28,705	30,110	33,490	38,733	30,084
221,428	129,397	90,414	124,512	119,942	106,595	132,697	100,766
92	90	97	95	94	94	92	91
8	10	3	5	6	6	8	9
48,339	32,777	25,217	27,266	29,720	31,038	38,952	31,395
37,027	32,067	25,874	28,705	30,110	33,490	38,733	30,084
29,862	29,773	26,846	27,025	28,220	29,732	30,215	32,695
115,228	94,617	77,937	82,996	88,050	94,260	107,900	94,174
82	89	95	90	90	91	87	85
18	11	5	10	10	9	13	15
60,128	58,273	54,504	51,585	39,941	37,320	30,483	25,712
28,570	20,070	18,760	13,200	6,900	5,400	11,600	(6,200)
88,698	78,343	73,264	64,785	46,841	42,720	42,083	19,512
246,128	241,102	226,212	214,830	194,323	194,255	189,500	167,972
25,401	24,609	26,711	25,369	25,065	23,372	21,970	20,618
360,227	344,054	326,187	304,984	266,229	260,347	253,553	208,102
161,829	152,286	150,298	145,272	141,884	136,393	134,726	128,688
5,372	5,039	4,295	3,977	3,955	4,332	3,860	2,176
167,201	157,325	154,593	149,249	145,839	140,725	138,586	130,864
32,115	28,688	24,092	23,475	25,663	22,253	18,014	18,261
199,316	186,013	178,685	172,724	171,502	162,978	156,600	149,125

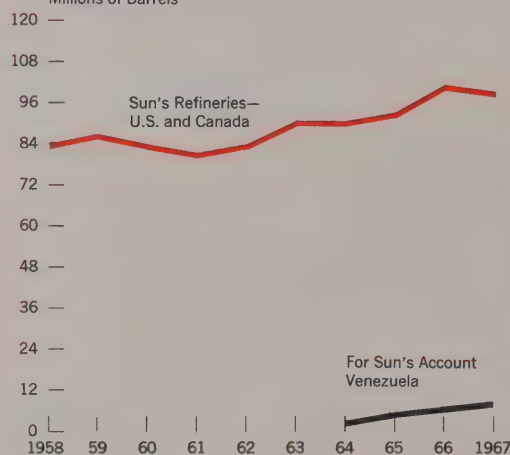
Net Production of Crude Oil and Condensate

Millions of Barrels



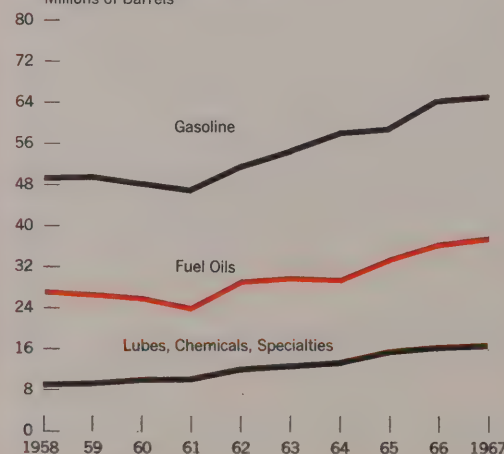
Crude Oil Refined

Millions of Barrels



Refined Product Sales

Millions of Barrels



Ten Year Operating Summary • Sun Oil Company

	1967	1966
Average Number of Employees		
Oil Division—U.S. and Canada.....	17,110	16,146
Other.....	539	547
	<u>17,649</u>	<u>16,693</u>
Shipbuilding and Repair.....	4,731	4,698
Total.....	<u>22,380</u>	<u>21,391</u>
Stock Purchase Plan		
Number of Employees Participating in Liquidation 6/30.....	8,075	8,182
Shares of Sun Stock Distributed (Thousands).....	337	310
Net Crude Oil and Condensate Produced		
(Thousands of Bbls.)		
U.S. and Canada.....	49,739	44,586
Other.....	33,076	35,113
Total.....	<u>82,815</u>	<u>79,699</u>
Residue Natural Gas		
(Millions of Cubic Ft.).....	333,047	325,135
Processed Natural Gas Liquids		
(Thousands of Bbls.).....	8,279	6,915
Net Wells Completed		
Oil.....	142	177
Gas.....	57	48
Dry.....	99	155
Total.....	<u>298</u>	<u>380</u>
Net Producing Wells 12/31		
Oil.....	4,783	4,722
Gas.....	833	827
Total.....	<u>5,616</u>	<u>5,549</u>
Producing Acreage (Thousands).....	467	468
Undeveloped Acreage (Thousands).....	23,704	25,805
Crude Refined at Sun Refineries		
(Thousands of Bbls.)		
Marcus Hook, Pa.....	53,673	52,908
Toledo, Ohio.....	34,520	36,847
Sarnia, Ont.....	9,653	10,698
Total.....	<u>97,846</u>	<u>100,453</u>
Crude Refined as a % of Rated Capacity.....	95	100
Crude Refined for Sun's Account		
(Thousands of Bbls.)		
Venezuela.....	7,529	6,635
Shipments through Sun Owned or Operated		
Pipe Lines (Millions of Bbl. Miles)		
U.S. and Canada		
Crude Oil.....	6,029	6,252
Refined Products.....	8,266	8,511
Total.....	<u>14,295</u>	<u>14,763</u>
Other		
Crude Oil.....	2,762	2,838
Tankers Owned		
Coastal.....	2	6
Ocean.....	9	9
Tonnage (Thousands of Tons).....	282	280
Sales of Refined Products (Thousands of Bbls.)		
Gasoline.....	64,820	64,114
Middle Distillates.....	29,119	28,716
Residual Fuel Oils.....	8,440	7,924
Lubricants, Chemicals and Specialties.....	16,554	16,033
Total.....	<u>118,933</u>	<u>116,787</u>
U.S. and Canada (%).....	92	93
Other (%).....	8	7
Retail Outlets Marketing Branded		
Motor Products (U.S. and Canada).....	10,434	10,465

1965	1964	1963	1962	1961	1960	1959	1958
16,639	16,512	16,483	16,827	16,510	16,763	16,844	17,274
606	604	542	512	511	529	531	336
<u>17,245</u>	<u>17,116</u>	<u>17,025</u>	<u>17,339</u>	<u>17,021</u>	<u>17,292</u>	<u>17,375</u>	<u>17,610</u>
3,909	3,515	3,058	3,112	3,392	3,079	2,625	2,842
<u>21,154</u>	<u>20,631</u>	<u>20,083</u>	<u>20,451</u>	<u>20,413</u>	<u>20,371</u>	<u>20,000</u>	<u>20,452</u>
9,203	9,849	10,070	10,237	10,167	10,092	9,827	9,493
254	262	212	200	163	157	161	180
41,726	40,000	38,717	37,754	36,775	36,563	36,341	34,409
34,614	34,814	31,861	27,314	15,605	13,241	6,440	1,419
<u>76,340</u>	<u>74,814</u>	<u>70,578</u>	<u>65,068</u>	<u>52,380</u>	<u>49,804</u>	<u>42,781</u>	<u>35,828</u>
304,212	290,473	270,684	261,821	264,411	250,925	239,194	204,437
6,657	6,585	6,178	6,011	5,902	5,073	4,453	4,203
189	163	146	171	174	199	198	186
65	49	41	37	58	52	79	55
<u>175</u>	<u>189</u>	<u>160</u>	<u>104</u>	<u>123</u>	<u>119</u>	<u>160</u>	<u>120</u>
429	401	347	312	355	370	437	361
4,660	4,573	4,412	4,390	4,435	4,492	4,441	4,432
739	730	680	632	594	572	541	426
<u>5,399</u>	<u>5,303</u>	<u>5,092</u>	<u>5,022</u>	<u>5,029</u>	<u>5,064</u>	<u>4,982</u>	<u>4,858</u>
438	415	380	367	371	355	338	298
<u>18,913</u>	<u>18,641</u>	<u>9,859</u>	<u>11,768</u>	<u>13,769</u>	<u>16,766</u>	<u>18,909</u>	<u>18,770</u>
49,827	50,424	50,146	47,265	45,937	46,653	46,848	47,122
33,406	31,145	31,544	29,388	28,314	29,882	31,897	30,306
<u>10,282</u>	<u>8,718</u>	<u>8,494</u>	<u>6,965</u>	<u>6,260</u>	<u>5,921</u>	<u>6,065</u>	<u>5,518</u>
93,515	90,287	90,184	83,618	80,511	82,456	84,810	82,946
93	89	88	84	81	83	86	84
5,665	1,985	—	—	—	—	—	—
5,960	5,069	4,708	4,202	4,712	4,911	4,530	4,757
<u>7,962</u>	<u>7,797</u>	<u>7,486</u>	<u>7,260</u>	<u>7,075</u>	<u>7,052</u>	<u>7,033</u>	<u>6,604</u>
13,922	12,866	12,194	11,462	11,787	11,963	11,563	11,361
2,801	2,613	2,225	2,059	1,161	1,038	—	—
7	7	7	8	8	8	8	8
10	10	10	12	12	12	14	14
300	300	300	337	337	337	337	302
58,654	57,431	54,364	51,382	47,220	47,949	49,342	49,131
24,709	20,757	20,594	19,593	17,381	17,811	18,577	18,801
8,759	8,554	9,242	9,587	6,678	7,430	7,797	8,346
<u>15,238</u>	<u>13,030</u>	<u>12,544</u>	<u>11,920</u>	<u>10,464</u>	<u>10,365</u>	<u>9,884</u>	<u>9,187</u>
107,360	99,772	96,744	92,482	81,743	83,555	85,600	85,465
93	97	97	97	99	99	99	99
7	3	3	3	1	1	1	1
10,436	10,364	10,053	9,993	9,939	9,516	9,317	9,097

Oil and Gas Acreage

Thousands of Acres (Net) December 31, 1967		
United States	Producing	Undeveloped
Alaska	—	417
Colorado	9	62
Florida	4	249
Kansas	6	125
Kentucky	2	89
Louisiana	40	432
Michigan	11	146
Mississippi	13	475
Montana	3	96
New Mexico	7	274
Ohio	—	158
Oklahoma	53	522
Texas	261	2,237
Wyoming	1	155
Other States	7	499
	<u>417</u>	<u>5,936</u>
Canada	47	2,174
	<u>464</u>	<u>8,110</u>
Foreign		
Australia	—	13,959
Bahamas	—	676
Dubai	—	248
Iran	—	247
North Sea	—	450
Venezuela	3	14
	<u>3</u>	<u>15,594</u>
Total	<u>467</u>	<u>23,704</u>

Crude Oil Production, Residue
Natural Gas and Reserves

Year 1967		
	Net Crude Oil and Condensate (Thousand Bbls.)	Residue Natural Gas (Million Cu. Ft.)
United States		
Colorado	34	5,532
Florida	864	162
Kentucky	551	—
Louisiana	9,335	110,480
Michigan	1,028	2,628
Mississippi	2,652	5,733
Montana	440	103
New Mexico	761	4,247
Oklahoma	1,911	19,346
Texas	27,081	175,541
Other States	1,339	1,216
	<u>45,996</u>	<u>324,988</u>
Canada	3,743	8,059
Venezuela	33,076	—
Total	<u>82,815</u>	<u>333,047</u>

Proved underground reserves of crude and condensate in the United States and Canada at December 31, 1967, were estimated to be 645,000,000 barrels (net). Estimated reserves of recoverable natural gas liquids were 80,000,000 barrels (net). Similar net reserves of natural gas were estimated at 5.5 trillion cubic feet. Proved underground reserves of crude and condensate were estimated to be 295,000,000 barrels (gross) in Venezuela.

Distribution of
Sun's 1967 Revenue Dollar



In 1967, Sun took in \$1,173,250,000 in revenues from sale of products and other sources. Costs and expenses took \$1,064,674,000, leaving profits of \$108,576,000. Here's how each of the revenue dollars was used:



Materials, Supplies and Services 52.7¢



Wages and Benefits 20.8¢



Intangible Development Costs 2.5¢



Direct Taxes 8.8¢



Depreciation, Depletion, Retirements 5.9¢



Net Income 9.3¢

Subsidiaries and Affiliates

SUN OIL COMPANY

Subsidiaries

Argentine Sun Oil Company
Australian Sun Oil Company Limited
Avisun Corporation*
British Sun Oil Company Limited
Claymont Investment Company
Cordero Mining Company
Dubai Sun Oil Company
Iranian Sun Oil Company
Netherlands Sun Oil Company
Deluxol Olie Maatschappij N.V.
Noordzee Sun Oil Company
North Chester Realty Company
North Sea Sun Oil Company Limited
Prosun, Inc.
Sperry-Sun Well Surveying Company
Sperry-Sun of Canada Limited
Sun International Finance Corp.
Sun Oil Company (Belgium) S.A.
Sun Oil Company Limited
Albersun Oil and Gas Limited
Great Canadian Oil Sands Limited
Athabasca Realty Company Limited
Sun-Canadian Pipe Line Company Limited
Sun Exploration of Quebec Limited
Sun Oil GmbH
Sun Oil International, Inc.
Sun Oil Line Company of Michigan
Sun Pipe Line Company
Sun Pipe Line Company of Delaware
Sun Shipbuilding & Dry Dock Company
Sun Venture Corporation
Venezuelan Sun Oil Company

Affiliates

Mid-Valley Pipeline Company
Standard Naphthalene Products Company, Inc.
SunOlin Chemical Company

In addition, Sun has 17 marketing subsidiaries
in the U.S. and Canada.

*Sold in January, 1968.

Directors and Officers

J. HOWARD PEW, Chairman, Board of Directors
ROBERT G. DUNLOP, Director and President
JNO. G. PEW,¹ Director and Senior Vice-President
CLARENCE H. THAYER,² Director and Senior Vice-President
WILBURN T. ASKEW, Director and Vice-President
CHARLES L. BOYLE, Director and Vice-President
DARWIN W. FERGUSON, Director and Vice-President
THOMAS S. HORROCKS,³ Director and Vice-President
CHALMER G. KIRKBRIDE, Director and Vice-President
KINGSLEY V. SCHROEDER, Director and Vice-President
JOSEPH T. WILSON, JR., Director and Secretary-Treasurer
DONALD P. JONES, Director and Comptroller
ELMER R. BRADLEY,⁴ Director
WALTER C. PEW, Director
JOHN P. LEECH, Assistant Secretary-Treasurer
WILLIAM S. WOODS, JR., Assistant Secretary-Treasurer
JOHN H. MCWILLIAMS, Assistant Secretary
JOSEPH R. LAYTON, Assistant Comptroller
FRANCIS A. LE CATES, Assistant Comptroller
CHARLES A. PFAHLER, Assistant Comptroller

¹Retired as Senior Vice-President December 31, 1967.

²Retired December 31, 1967.

³Retired January 31, 1968.

⁴Elected Vice-President February 1, 1968.

GENERAL OFFICES:

1608 Walnut Street
Philadelphia, Pennsylvania 19103

REGISTRARS:

Bankers Trust Company, New York and
Girard Trust Bank, Philadelphia

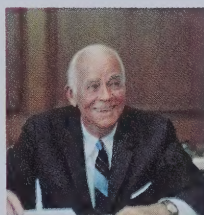
TRANSFER AGENTS:

The Chase Manhattan Bank, N.A., New York and
The Fidelity Bank, Philadelphia

ANNUAL MEETING:

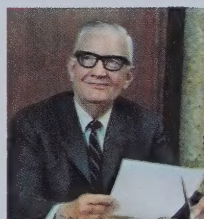
Tuesday, April 16, 1968, 2:00 p.m., Sun Center,
Feltonville, Delaware County, Pennsylvania

Two Veteran Sun Officers Conclude Careers; A Third Gives Up Active Administrative Responsibility



JNO. G. PEW

Mr. Pew retired as a senior vice president on December 31, 1967, but will continue to serve on the Board. He joined Sun in 1924, succeeded his father as vice president for Production in 1946, and was elected a senior vice president in 1960. During his Sun career, he has become a recognized petroleum industry leader.



CLARENCE H. THAYER

Mr. Thayer resigned from the Board after retiring as senior vice president on December 31, 1967. He had delayed his retirement for several years to direct the pioneering Athabasca tar sands project. Prior to that he held executive responsibility for manufacturing, engineering, research and transportation activities.



THOMAS S. HORROCKS

Mr. Horrocks resigned from the Board and retired as Marketing vice president on January 31, 1968. During his long career with Sun, he served in a variety of marketing posts prior to being elected vice president in 1960. In that position, he has held broad responsibility for sales, distribution and advertising.



SUN OIL COMPANY
1608 Walnut Street
Philadelphia, Pennsylvania 19103

Uniquely styled Sunoco rancher is first service station in new, planned community of Columbia, Maryland.

